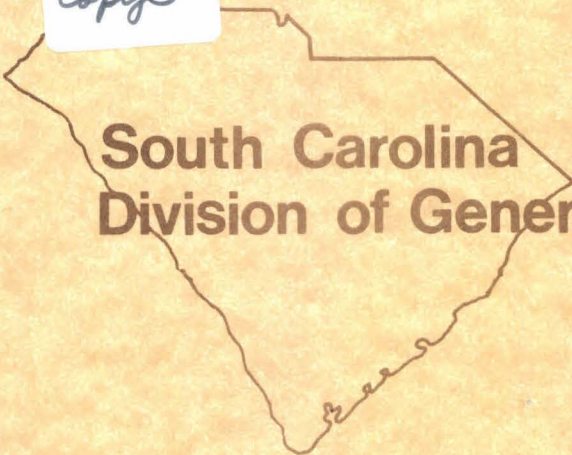


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South Carolina  
Division of General Services

# PROCUREMENT AUDIT AND CERTIFICATION

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S.C. STATE COLLEGE

AGENCY

JANUARY 8, 1985

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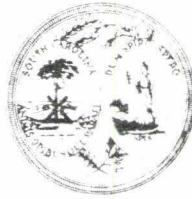


STATE OF SOUTH CAROLINA  
**BUDGET AND CONTROL BOARD**  
DIVISION OF GENERAL SERVICES  
300 GERVAIS STREET  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 758-3150

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HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN  
EXECUTIVE DIRECTOR

RICHARD W. KELLY  
ASSISTANT DIVISION DIRECTOR

January 8, 1985

Mr. Tony R. Ellis  
Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Tony:

Attached is the final South Carolina State College audit report and recommendations made by the Audit and Certification Section. Since no certification request above the \$2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to them for the purpose of information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard W. Kelly".

Richard W. Kelly  
Director of Agency Services

RWK:kl  
Attachment

SOUTH CAROLINA STATE COLLEGE

AUDIT REPORT

November 18, 1983

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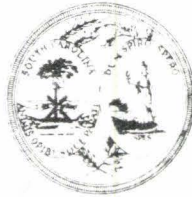


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ASSISTANT DIVISION DIRECTOR

November 18, 1983

Mr. Richard W. Kelly  
Director of Agency Services  
Columbia, South Carolina

We have examined the procurement policies and procedures of South Carolina State College (S.C. State) for the period July 31, 1981 - May 31, 1983. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and college procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of S.C. State is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable,

but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place S.C. State in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



R. Voight Shealy  
Director of Audit and Certification

## INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of S.C. State.

Our on-site review was conducted May 31, 1983 through August 3, 1983, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the college in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with



clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

## SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of S.C. State and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

The Audit and Certification team statistically selected random samples for the period July 1, 1981 - May 31, 1983, of procurement transactions for compliance testing and performed other auditing procedures through July 31, 1983, that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;

- (10) warehousing, inventory and disposition of surplus property;
- (11) economy and efficiency of the procurement process;
- (12) duplicating equipment utilization analysis and
- (13) Minority Business Enterprise Utilization Plan.



## SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of S.C. State produced findings and recommendations in the following areas:

### PAGE

#### I. PROCUREMENT AUTHORITY AND RESPONSIBILITY

##### A. Procurement Director Position Needed

16

S.C. State generally procures in a decentralized manner. This is primarily because there is no procurement director to organize, manage and control the procurement function.

#### AGENCY RESPONSE

A procurement director position will be requested in the next budget request.

##### B. Central Contract File

19

Contracts are not maintained in a central location by college administration, but by each department. We encountered difficulty in obtaining contracts from the departments because they could not be found.

#### AGENCY RESPONSE

The contract file in the Office of Busi-

ness and Finance is being updated to include all current contracts. This is being accomplished by insuring that current contracts are on file before a contract is renewed or before a payment is made on an existing contract.

C. Small Procurement Procedures

21

The college spends an excessive amount of time processing small repetitive procurements because there are no effective small procurement procedures.

AGENCY RESPONSE

Purchases from the College Bookstore, which represents the majority of the small purchases, will be made through a method other than the purchase order method. Further actions must be held in abeyance until the proper machinery is in place for proper monitoring.

II. COMPLIANCE - GOODS AND SERVICES

25

A. Procurements Made Out of Compliance

Our examination of transactions in the

area of goods and services revealed a number of exceptions.

AGENCY RESPONSE

See responses under II-A - Results of Examination.

B. Use of State Term Contracts

28

The college has not availed itself of state term contracts for office supplies resulting not only in their being out of compliance but also in the college paying higher prices.

AGENCY RESPONSE

The College does avail itself of term contracts for office supplies.

C. Procurement of College Office Supplies by the Bookstore

30

The college Bookstore is used as the college office supply stockroom, and, as such, is required to maintain an inventory of high use office supply items for



departmental convenience. We found a number of transactions that were not made in compliance with the Procurement Code.

AGENCY RESPONSE

See response under II-C - Results of Examination.

III. COMPLIANCE - INFORMATION TECHNOLOGY

32

Several long-term contracts supporting procurement actions could not be found. Also, some contracts in this area must be rebid.

AGENCY RESPONSE

See Response to I-B above and also the response to III - Results of Examination.

IV. PROPERTY AND INVENTORY CONTROL

A. Not Reporting Surplus Property

36

The college has neglected to report items surplus to their needs to the Division of General Services' Surplus Property Office.

AGENCY RESPONSE

As items are determined by us to be surplus, they are reported to the Surplus Office.

B. Updating Property Inventory Records  
on a Timely Basis

39

Three equipment items bought up to seven months before had not been added to the equipment inventory at the time of our examination.

AGENCY RESPONSE

Inventory update procedure will be monitored more closely.

C. Central and Office Supply Stockrooms

40

Central supply operations are fragmented and are not properly controlled.

AGENCY RESPONSE

A review is being made of the Central and Office Supply Stockroom situation and a recommendation is forthcoming.

V. COMPLIANCE - GENERAL

A. Sole Source and Emergency Procurements

42

In a review of quarterly reports of sole source emergency procurements and trade-in sales, we found the majority of these transactions to be proper and accu-



rately reported, but we did encounter some problems.

AGENCY RESPONSE

See responses under section V-A - Results of Examination.

B. Minority Business Utilization Plan

48

S.C. State's Minority Business Utilization Plan has not been approved by the Small and Minority Business Assistance Office.

AGENCY RESPONSE

See comment and response in section V-B - Results of Examination.

VI. INTERNAL AUDIT

The college's internal audit director's position has been vacant for over a year. This position should be filled to provide direction for the Internal Audit Section, which has not adequately covered the procurement area.

49

AGENCY RESPONSE

See comment and response in section VI -  
Results of Examination.

VII. FISCAL ACCOUNTABILITY ACT REPORTING

51

Partially due to lack of clarification  
statewide, the college has failed to  
fully comply with the Fiscal Accountabil-  
ity Act.

AGENCY RESPONSE

See comment and response to section VII -  
Result of Examination.

VIII. REVIEW OF THE PROCUREMENT PROCEDURES MANUAL

54

Our review of the current manual indicat-  
ed several areas that need to be added,  
changed or expanded.

AGENCY RESPONSE

See comment and response to section VIII -  
Results of Examination.

IX. PRINT SHOP UTILIZATION

59

As part of our examination, the State Printing Officer analyzed print shop equipment and personnel utilization.

AGENCY RESPONSE

See comment and response under section IX -  
Result of Examination

X. ENERGY AUDIT

63

We requested the Division of General Services' Engineering and Energy Management Coordinator to analyze S.C. State's energy management program.

AGENCY RESPONSE

To be addressed separately.

## RESULTS OF EXAMINATION

### I. PROCUREMENT AUTHORITY AND RESPONSIBILITY

#### A. Procurement Director Position Needed

S.C. State generally procures its requirements in a decentralized manner. There is no procurement director to organize, manage and control the procurement function. This is the only state-supported college without such a position. Currently, this function is under the Business Office which handles a multitude of other functions.

All solicitations are handled by the requesting departments who solicit prices from local vendors. These quotations are forwarded to the Business Office with a requisition.

The Business Manager has not been given the direct responsibility of being the college purchasing agent. There are two clerks in his office that are assigned responsibility for reviewing orders and supporting documentation for compliance, typing purchase orders, processing determinations and findings and reporting Fiscal Accountability Act data to the appropriate authorities.

The Procurement Code was an effort to upgrade the professionalism and public confidence in state procurement. Centralization of authority and accountability are important elements of an effective procurement system. Purchasing in the public sector has evolved from a user oriented support service



into a complex operation involving such functions as planning and scheduling procurements, standardization of specifications, central supply, property control and inspection and testing in some cases. Under this broadened concept of purchasing as a management program, formal goal setting is necessary between agency and purchasing officials. Performance evaluation is an integral part of this type of program.

The decentralized method, if properly followed, can satisfy internal control requirements, but it does not necessarily enhance efficiency. Also, it does not foster effective broad-based competition, which is one of the purposes and policies of the Code.

We have seen evidence that the decentralized procurement system has hindered the college by requiring unnecessary documentation and effort because of central management's concern that departments comply with the Procurement Code. Further, it has stopped the development of alternative procurement procedures.

Finally, we believe the majority of the exceptions found in this report would not have happened if the college had an active professional procurement office. This would eliminate, for the most part, the need for training all college personnel in procurement and the Consolidated Procurement Code, which is virtually what is required under S.C. State's current operating structure.

We recommend that the college establish a Purchasing Office functionally distinct from the Business Office in order to separate the procurement and payment functions effectively.

Approval should be requested from the appropriate authorities to establish a Purchasing and Supply Manager position. The two clerks in the Business Office that now perform these functions could be transferred to this section.

Toward this end, the Division of General Services stands ready to assist S.C. State in preparing the position request justification. Through the use of the Fiscal Accountability Act data base, we can perform comparative analyses of the procurement workload on S.C. State and similar state agencies that have purchasing directors. In our opinion, these factors combined with this audit report would indicate that the position is warranted.

The Purchasing and Supply Manager should be given authority and responsibility over all areas of procurement or at least those transactions covered by the Procurement Code. Further, operation of the office, maintenance, janitorial and custodial stockrooms should be consolidated under his control.

Once established, this section should assume all procurement functions including solicitation of prices, establishment and control of all contracts and their renewal, and establishment of effective central supply procedures (excluding any "small purchase" procedures which may be delegated to operating departments). These actions would place appropriate importance on the purchasing and supply functions which account for 92% of the college's operating budget excluding personal service and related expenditures.

## AGENCY RESPONSE

The final signatory for purchases has always been the chief financial officer. Since the creation of the Business Manager's position, the responsibility for review of purchases has been assigned to that position.

A decentralized method of purchasing does not necessarily enhance inefficiency. Also, by the mere fact that more people are involved, the base of possible suppliers is broadened. However, we do plan to look very closely at a centralized purchasing and supply stockroom system.

The requirement for documentation will be necessary regardless of the procurement system. Central management will always be concerned about procurement code compliance.

Efforts to have the Full-time equivalent employee authorization increased to accommodate a procurement professional will be renewed.

A request will be submitted for this position in the next budget submission in order to permit the establishment of a purchasing office.

### B. Central Contract File

Throughout the audit of S.C. State, we encountered one problem over and over. As noted in II-A and III below, college officials were unable to find contracts supporting procurement transactions. This was prevalent in the areas of information technology and other equipment rentals, maintenance, etc.



In order to properly control payments on long-term contracts, there must be a copy of the contract and supporting documents on hand so that services and charges can be verified. This will also indicate when the contracts should be rebid, which, we feel, is the case with the majority of the contracts referenced in the audit points listed above.

We feel that this problem is caused partially by the Business Office's complete reliance on user departments to verify payments against contracts. The Business Office does not maintain central files on contracts and there is not purchasing agent to monitor these. Invoices for these services are transmitted to user departments for payment approval. The philosophy is that the end users are more familiar with their own equipment.

While we do not disagree entirely with this philosophy on payment verification, it is obvious that the system has broken down. In our opinion, the Business Office should be capable of making payment verification independently, even if the current procedures is continued. This is typical of accounting offices in state agencies we have visited.

We recommend that the Business Office obtain copies of all existing contracts of the college from college departments and vendors where necessary. These should be reviewed for resolicitation requirements of the Procurement Code and Section 17 of the 1983/84 Appropriations Act, Permanent Provisions, as noted later.

These contracts should be centrally filed for future reference. In the absence of a purchasing director, this responsibility should be assigned to the Business Office.



### AGENCY RESPONSE

Heavy reliance has to be placed on the users to insure that the service for which payment is made has been rendered. The Business Office does independently verify the accuracy of the dollar amount. Additionally, as indicated in our response in Section I-B - Summary of Finding, we are in the process of completing the central contract file.

Copies of all contracts not on file, are being obtained with each payment. Efforts are being made to insure all renewals are being made to insure all renewals are being made in accordance with the procurement code and the 1983-84 Appropriation Act.

#### C. Small Procurement Procedures

The college spends an inordinate amount of time processing small repetitive procurements. Using the Fiscal Accountability Act data from the Division of General Services, an analysis was made of the quantity of purchase orders issued and their amounts for July 1, 1982 through June 2, 1983. This revealed that 40% of all purchase orders issued were for less than \$100 and that 88% of all purchase orders issued were for less than \$500.

The National Association of Educational Buyers' handbook on "Small Purchase Procedures" identifies a number of universities using systems to reduce administrative costs in the processing of small orders while controlling them effectively. It has been our

experience that every other state-supported college and university in the State utilizes some simplified small purchase procedure. Combined with requisite controls, the use of small orders reduces the cost of processing purchase orders and results in a measurable cost savings to the procurement unit, effectively increasing economy and efficiency.

S.C. State has a direct expenditure requisition system but uses it only in limited cases. It is not used as a simplified procurement method for processing small orders. Further, the college has no blanket purchase agreements nor other simplified method of filling anticipated repetitive needs for small quantities of supplies and services.

Procedural development in this area has been slow because of management's concern that small purchase procedures may result in weakened control over the procurement function. Additionally, in our opinion, development in this area has been slow, because, as noted above, there is no central procurement office to implement projects of this nature and to monitor and evaluate the results.

We recommend development of a simplified small purchase procedure. The direct expenditure system could be expanded, a properly controlled departmental purchase order system could be implemented or some other method might be established. Once the method is chosen, a dollar limit such as \$100, \$200, or some other amount no greater than \$500, should be established for their use for general goods and services.

Additionally, in our opinion, the following non-competitive items could be procured in this manner without considering the dollar limitation:

1. Oil company credit card charges for gas, oil and jet fuel;
2. Heat, light and water bills;
3. Telephone and telegraph bills;
4. U.S. post office box rentals and postage;
5. Freight and express bills;
6. Contributions and dues;
7. Sales tax paid to the South Carolina Tax Commission;
8. Auto licenses and registrations;
9. Magazine subscriptions (not to exceed \$500); and
10. Payments against properly approved contracts that are on file in the Business Office if such a file is created.

Contracts should be clearly referenced.

Many of these items (services) are currently being acquired without the repetitive issuance of purchase orders by the college.

Finally, in our opinion, there are several areas where an adequately controlled blanket agreement system would be very helpful. These might include the following:

1. Typing Center for small repetitive printing orders;
2. Motor Pool for vehicle repairs;
3. Physical Plant for maintenance supplies;
4. Office supply needs not on term contract or available from the Bookstore.



Regulation 19-445.2100, Subsection C, deals with establishing these blanket agreements and the terms and conditions required.

#### AGENCY RESPONSE

The majority of the small purchase orders are issued to the College Bookstore and a few other vendors in the Orangeburg area. A small order procedure (no purchase order) will be development for the College Bookstore. Further actions will be held in abeyance until the proper machinery is in place to monitor the purchases.

As noted in the report, nine of the ten items were being acquired, prior to the audit, without the repetitive issuance of purchase orders.

Except for item number four, job request forms, which do not require the issuance of a purchase order, were being used. Additionally, all these services are provided in-house. As for item four, when the machinery is in place to monitor a blanket purchase agreement we will look into the possibility of establishing such agreement (See response to Section I-A - Summary of Findings).



## II. COMPLIANCE - GOODS AND SERVICES

### A. Procurements Made Out of Compliance

Our examination of transactions in the area of goods and services revealed the following exceptions:

#### 1. NO EVIDENCE OF COMPETITION

<u>Voucher #</u>	<u>Amount</u>	<u>Comments</u>
a) 54705	\$1,276.00	Payment for newspaper advertisement of a personnel position.
b) 47721	816.00	Payment for auto liability insurance.

The above items showed no evidence of competition as required by Regulations 19-445.2000 and 19-445.2100 nor were they justified as sole source or emergency procurements.

#### AGENCY RESPONSE

Evidence of competition was lacking because of the reasons indicated below:

- a) Advertisement was placed to reached a designated audience. This advertisement was placed in the Chronicle on Higher Education, a publication designed specifically to reach a selected audience.
- b) This was auto insurance on the driver education vehicles. Because of their peculiar cycle, the insurance was renewed without competition.

Appropriate action will be taken.

#### 2. CONTRACTS NOT LOCATED AND CONTRACTS RENEWED OUT OF COMPLIANCE

<u>Voucher #</u>	<u>Amount</u>	<u>Comments</u>
a) 47599	\$1,600.00	Payment for annual maintenance agreement on a projector.
b) 51139	3,887.00	Payment for annual maintenance on typewriters.

c)	55207	1,760.00	Payment for annual maintenance agreement on printing equipment.
d)	54155	1,152.00	Payment for annual maintenance on data processing equipment.
e)	41630	547.34	Payment for maintenance agreement
	41536	547.34	on copiers.

The contracts supporting these payments could not be located by college personnel so no determination of whether they were procured before the Procurement Code could be made. Since these are annually renewable contracts, however, we can say that either: (1) they were procured before the Code but not renewed in compliance, or (2) they were procured since the passage of the Code but not done in compliance with it. Renewal of contracts that are not true multi-term contracts as defined by the Code and that are not documented with multi-term determinations and findings are new procurements and should be handled accordingly. See III below for the specific criteria.

#### AGENCY RESPONSE

Items a, c, and d, were sole source but the sole source determination documents were not completed. Item b, was bid by the State for the 1983-84 year. On item e, the cost exceeded the limit by only \$47.34 and was accepted by our office in error.

All the above represent contract renewals and current dated contracts were not on file.

In the future, we will attempt to have current dated contracts on file for all existing contracts, as mentioned in Section I-B - Summary of Finding.

### 3. UNAUTHORIZED PROCUREMENTS

<u>Voucher #</u>	<u>Amount</u>	<u>Comments</u>
a) 46834	\$ 907.92	Purchase of soap for the dining hall.
b) 58275	962.02	Purchase of parts and service to repair a boiler.

Both of the above procurements apparently were unauthorized purchases by department heads as evidenced by supportive documents being out of sequence, i.e.:

Item a) - The dish soap was shipped January 29, 1982, and invoiced February 2, 1982. However, the requisition was dated January 27, 1982, and the subsequent purchase order dated February 16, 1982.

Item b) - The boiler repair was completed in April, 1982 with the requisition being submitted on May 3 and the purchase order issued May 9, 1982.

These unauthorized procurements were not ratified by the college president as required by Regulation 19-445.2015 and by the college's procurement procedures. This section of the regulations requires the head of the governmental body to prepare a written determination as to the facts and circumstances surrounding the act, what corrective action is being taken to prevent reoccurrence, action taken against the individual committing the act, and documentation that the price paid is fair and reasonable. If the price paid is unreasonable, the individual may be held pecuniarily liable for the difference.

#### AGENCY RESPONSE

Orders were authorized. It is the College's practice to issue confirmation purchase orders. In this case the request did not have "confirmation" printed on it.

Not only will the Business Office exert greater care before the payment is made, but will exert even greater care before the procurement is made.

Based on our findings, we can project statistically with 95% confidence that up to 25% of all transactions in the area of goods and services may not have been processed in compliance with the Procurement Code.

It is our opinion that these exceptions are due in part to the decentralized procurement methodology at the college, as



noted in I-A above. Further, as stated in I-B above, it is impossible for the Business Office to determine when contract services must be re-procured without a central contract file.

We reiterate the recommendations made in these points. Further, we recommend that the Business Office exert greater care to determine compliance with the Procurement Code before payments are processed in the future.

#### B. Use of State Term Contracts

We examined some office supply procurements to ensure that the college was availing itself of state term contracts established by the Materials Management Office. Our examination of these transactions revealed a number of items which had not been purchased from the established contract vendors. Some examples of these are as follows:

P.O. #	Description	Unit Price Paid	Term Contract Unit Price	Excess Paid Per Unit
1) 97932	Replacement Staples	\$ 1.75 bx	\$1.00 bx	\$ .75 bx
2) 98129	Letter Trays	3.89 ea	2.87 ea	1.02 ea
3) 98131	Liquid Paper	1.39 btl	.57 btl	.52 btl
4) 98130	Secretarial Handbook	10.95 ea	9.50 ea	1.45 ea
5) 97741	Weekly Minder Calendar Refills	6.15 ea	4.62 ea	1.53 ea

All of the above items are on state term contract and they were available from the Division of General Services' Office Supply Warehouse. Further, items 1 and 3 are carried in stock in the college Bookstore, which operates as an office supply stockroom.



A state term contract, as defined by the Consolidated Procurement Code in Section 11-35-310, shall mean:

A contract established by the materials management office for a specific product or service for a specified time and for which it is mandatory that all government bodies procure their requirements for such goods and services during its term.

It became apparent to us from the exceptions we noted and from discussions with S.C. State office personnel, that the college's understanding of the use of state term contracts was that they are mandatory only if the user requests that product specifically by brand name. In reality, however, this is not the intent. If a request is made, for example, for "liquid paper" regardless of the brand specified, the product should be procured from term contract.

We recommend the Business Office be more cognizant of term contract items when processing requests. Also, as alluded to above, the feasibility of implementing a plan to increase stockroom inventory should be studied.

#### AGENCY RESPONSE

It has been South Carolina State College practice to purchase items known to provide the required service or results. For example, certain brands of liquid paper work on ink and the others do not. In this case South Carolina State College purchases both. Another example is calendar refills. Calendar

refills are purchased to match the original calendar base. If the particular refill is not on contract, then the refill that works is purchased. Again, it is the intention to purchase items that yield the desired results. Greater cognizance of term contract items, when processing requests, will be an aim of the Business Office.

C. Procurement of College Office Supplies  
by the Bookstore

The college Bookstore is required under current procedures to maintain an inventory of high-use office supply items for departmental convenience. This operation is handled entirely separate from their other functions and they have the authority to issue their own purchase orders for restocking this office supply stockroom. Since these procurements are made outside the Business Office, we performed a special review which revealed the following transactions which were handled improperly:

<u>Bookstore P.O.#</u>	<u>Date</u>	<u>Amount</u>	<u>Item(s) Description</u>
1810	09/03/81	\$ 878.40	Video Tapes
0375	08/06/82	550.84	Tape, Hi Liters, Glue, Composition Books
0574	11/22/82	1,369.92	Pads, Report Covers, Index Cards
0591	12/06/82	672.00	Stencils
0610	12/16/82	583.96	Pens, Tacks & Construction Paper
0728	03/30/83	1,008.00	Stencils
0099	02/05/82	969.50	Printing Ink, Stencils, Folders
0589	12/06/82	1,018.00	Printing Ink, Stencils, Folders
0783	05/09/83	1,476.60	Printing Ink, Stencils, Folders
0456	09/17/82	520.00	Mimeo Paste Ink
0686	02/16/83	1,034.00	Mimeo Paste Ink and Toner
0381	07/10/82	855.50	Mimeo Paste Ink and Related Supplies

The above procurements were made without regard to the competitive source selection process, nor were they justified as sole source or emergency procurements. The office supply warehousing function of the Bookstore was not intended to be covered by the general exemption provided to bookstores in Section 11-35-710 of the Code.

The Bookstore has no specific written guidelines for making its own procurements. Further, Bookstore personnel are not familiar with the Consolidated Procurement Code. This resulted in the above procurements not being made in compliance with the Code.

S.C. State should immediately implement one of the following options to correct this problem:

OPTION I

- (1) The dollar limits and source selection process pertaining to bookstore purchases of office supplies for the college be addressed in the college's Purchasing Procedures Manual; and
- (2) The bookstore manager be trained in the meaning and use of the Code and Regulations and strictly adhere to them in the procurement of office supplies for the office supply stockroom.

OPTION II

If the recommendations in I-A, page 12, above are accepted, this stockroom should be moved under the purchasing director away from the Bookstore. This would also ensure that these procurements are handled by personnel familiar with the Procurement Code.



See additional comments concerning office supply inventory control at Section IV, Item D below.

#### AGENCY RESPONSE

Option I will be implemented immediately which will include providing the Bookstore with a current copy of the purchasing manual (dollar limits are listed) and the procurement regulations. In the future, a move toward the implementation of Option II will be initiated.

### III. COMPLIANCE - INFORMATION TECHNOLOGY

In our test of transactions in the area of information technology, we found the following vouchers which contained exceptions:

	<u>Voucher Number</u>	<u>Vendor</u>
1)	45565	Burroughs Corporation
2)	46144	Burroughs Corporation
3)	53458	Burroughs Corporation
4)	49853	Solinet

All of the above payments were toward long-term contracts, none of which could be located by college personnel.

Items 1-3 above include payments totaling \$13,691.38 collectively for rental and maintenance payments. Item 3 above also included two months of installment purchase billings totaling \$10,194.06.



Item 4 above is a contract with the Southeastern Library Network, Inc. Solinet, as it is called, is a cooperative regional library network engaged in developing sharing advanced library services. Solinet and the college have entered into two agreements:

1. A bibliographic products and services agreement where the college has access to certain of these services, including computer terminals capable of accessing the on-line data base made available to them.
2. A computer terminal service agreement for \$546 annually plus repair charges to maintain these terminals.

The original contract was entered into prior to the enactment of the Procurement Code and is basically an open-end contract with no specific contract period. As stated above, the original contract could not be located but the contract extension dated April 18, 1982 was found. The contract was extended on this date without a sole source determination as required by the Code.

The computer terminal service agreement, which was entered into July 15, 1982, was also procured without a sole source determination.

Since the rental and maintenance contracts in Items 1-3 could not be located, we cannot determine if they were procured before or after the Procurement Code. However, this type of contract is typically renewable annually so they were probably renewed since the Code's passage. If so, they are not in compliance as outlined below.

Section 11-35-2030 of the Procurement Code and Regulation 19-445.2135 address the conditions for the use of a multi-term agreement. These require that contracts for supplies or services be limited to one year unless it is determined in writing by the Procurement Officer of the governmental body that:

1. special production of definite quantities or the furnishing of long-term services are required to meet state needs; or
2. a multi-term contract will service the best interest of the State by encouraging effective competition or otherwise promoting economies in state procurements.

Once this determination is prepared, a contract can be entered into for up to five years. This cannot be exceeded without Budget and Control Board approval.

The Materials Management Officer interpreted this section to mean that for an existing contract to be an acceptable multi-term agreement it must meet the following criteria:

1. it must have been originally solicited as a multi-year agreement with all respondents to the solicitation being aware of this; and
2. the contract must have specific guidelines for establishing charges and rate increases for subsequent years within the life of the agreement. This might be that fee increases will be based on the inflation rate or the consumer price index or that increases could be limited to 5%, 10% or some other agreed upon maximum. Fee increases cannot be left to the discretion of the vendor.

Further, Section 17 of the Appropriations Act for Fiscal Year 1983-84 requires the following:

Any contract entered into prior to July 30, 1981, by a governmental body as defined in Item (18) of Section 11-35-310 of the 1976 Code and which is proposed to be renewed must be renewed in accordance with the provisions of the South Carolina Consolidated Procurement Code (Chapter 35 of Title 11 of the 1976 Code).

This means that contracts established before the enactment of the Procurement Code cannot be renewed or "rolled-over" unless they meet the above criteria. If renewal is required for an existing contract that was not procured under the Procurement Code, the renewal must be done in accordance with the Code, i.e., the renewal is a new procurement.

The contract that we could locate (the Solinet terminal maintenance agreement) is not a multi-term agreement because it does not meet the criteria established by the Materials Management Officer. Also, we believe the data processing rental and maintenance agreements are not multi-term contracts either. To make sure, the college should request copies from the vendor.

These contracts and all other similar agreements should be reviewed against the above criteria. If the existing agreements are not multi-term contracts, as defined by the Procurement Code, new contracts must be solicited before the old contract's renewal date. Either competition must be solicited or a sole source determination and finding must be prepared for each agreement.

Further, if the college wants to establish the new contracts as multi-term agreements, a multi-term determination and finding



must be prepared for each. For this to be proper, the new contracts must meet the criteria stated above.

#### AGENCY RESPONSE

Vouchers 1, 2, and 3 were payment for procurements made through the Central State Purchasing Office for Computer hardware. We merely continued the long-term contract, entered into by the State on behalf of South Carolina State College, for the computer hardware without preparing a sole source determination document. Voucher 4 is a sole source procurement with the Southeastern Library Network, Inc. (Solinet). Solinet is the only network available in this area that meets the needs of South Carolina State College.

With the next renewal, sole source determinations, if appropriate, will be initiated on the services covered by the vouchers mentioned above.

#### IV. PROPERTY AND INVENTORY CONTROL

##### A. Not Reporting Surplus Property

While testing the college's property control procedures, we found that warehouse number 2 is filled with surplus equipment and furniture. These items have not been reported to the Division of General Services as required by Regulation 19-445.2150, which states in part:



All governmental bodies must identify surplus items, declare them as such, and report them to the Materials Management Officer or his designee within 90 days from the date they become surplus.

It is difficult from an accountability standpoint to distinguish between the items stored in the warehouse as surplus items that should be sold and items held for future use.

To complicate matters, the ROTC program stores Civil Defense items in the same location. Surplus items, items held for future use and the Civil Defense supplies are stored throughout the building in no accountable fashion.

This results in the following:

1. Funds being tied up in this old property when proceeds from its sale could be returned to S.C. State and/or the general fund of the State.
2. Increased administrative costs for the storage and control of these items.
3. College departments being unaware of unused property available to them.

We recommend that an inventory be taken of all surplus property held by the college. Each item should be classified as one of the following:

1. Surplus property that should be disposed of through the Division of General Services;
2. Surplus that should be classified as junk and sold;
3. What is being held for review and future use by the college; or

4. What is being held for spare parts.

We understand that all requisitions for office equipment are routed through the Physical Plant Director to check against surplus before procuring new equipment. We commend this policy but also suggest that a list of surplus property and items held for future use be prepared and disseminated throughout the college to inform everyone of what is available to them. This should be useful to departments in their budgetary planning.

Surplus for sale and junk should be reported to the Division of General Services' Surplus Property Office so that it can be disposed of.

#### AGENCY RESPONSE

Items determined by us to be surplus to the institution's needs (not a department within the institution) will be turned over to the State Surplus Office for disposition. As other items are determined by us to be surplus to the Institution's needs, they will also be turned over to the State Surplus Office for disposition. This can be substantiated by the present efforts and discussions with the State Surplus Office concerning items in warehouse 2 recently determined by us to be surplus. As stated earlier, when items are determined by us to be surplus, we will make proper disposition of them.

B. Updating Property Inventory Records  
on a Timely Basis

Our examination revealed that three equipment items bought up to seven months ago had not been added to the equipment inventory. These are:

<u>Item</u>	<u>Voucher #</u>	<u>Payment Date</u>
Beds, Lot of 100	53308	11/03/82
Gaussmeter	54956	01/18/83
Flat Probe	54956	01/18/83

Prudent management and state law dictate a complete accounting of all property receipts, transfers and disposals to reflect accurate data for fixed asset accountability. This is critical in safeguarding the assets of the State not only to stop pilferage, etc., but also to ensure adequate insurance coverage.

It appears that S.C. State may not put sufficient emphasis on property control. This is documented in the State Auditor's management letter dated June 30, 1980. Only one person is assigned the responsibility of maintaining, verifying and updating property control records. His time has been limited during the past year because of special inventory projects.

We recommend that a more concerted effort be made to identify all inventorial equipment in a timely manner after it is received. Further, the responsibilities of the Property Control Officer should be reevaluated to determine if additional staff is needed either on a permanent or an "as needed" temporary basis.



## AGENCY RESPONSE

A more concerted effort is being made to identify and tag all inventoriable equipment. We will attempt to insure that no additional added equipment goes without being recorded into the system.

### C. Central and Office Supply Stockrooms

Our examination of the central supply and office supply stockrooms revealed that, except for the janitorial stock items (approximately 205), no perpetual inventory system is maintained. Although other supply needs such as maintenance, plumbing, electrical and grounds supplies are housed in the central stockroom, they are not controlled centrally. Each section of the Physical Plant restocks and controls their own items. Office supplies are managed by the Bookstore.

All stock items, including janitorial supplies, are reordered by the "visual walk through method". As noted above, in the case of janitorial supplies, there are perpetual inventory records that would facilitate the development of minimum reorder points, maximum and minimum stock level requirements and economical order quantities, but this information is not used.

The above precluded our testing of operational effectiveness and efficiency in the central supply and office supply areas. The records simply were not available.

The effectiveness of a central supply operation is predicated primarily on its ability to purchase high usage items in large quantities and effectively control them with an inventory system



which provides ready access to perpetual history data, has established re-order points and continually adjusts stock levels based on demand for each item.

There are no formal written policies and procedures regulating the central and office supply stockrooms. Further, having no perpetual inventory management system results in an overall lack of planning of stockroom acquisitions.

In our opinion, the following recommendations should be implemented to improve overall efficiency, effectiveness and control of supply operations:

1. Formal written policies and procedures should be developed and added to the internal procedures manual that establish clear authority and responsibility for central supply, require perpetual inventory records and detail ordering procedures for college departments.
2. The central supply manager should be given sole access to Physical Plant supplies. Control of these areas should be taken away from Physical Plant sections with them only providing advice on what items to stock and required stock levels.
3. Establish, at least, a manual perpetual inventory system that provides a recap of usage history.
4. Once usage history is developed, maximum and minimum stock levels, economical order quantities and minimum reorder points should be established. This information should be used for reordering rather than relying solely on visual assessment. Minimum reorder points should allow for on-hand stock balances to be moved in a maximum of one year (three months is a norm) allowing for reorder leadtime. The reorder

points should be based on the past usage for 12 months and systematically reviewed on a scheduled basis to reflect current trends in stock use.

5. The office supply inventory should be moved to the central supply area and both inventories should be expanded to an appropriate level to maximize quantity buying cost reductions. Approximately two-thirds of the space in central supply is completely unused.
6. Consolidate authority and responsibility for the operation of both the central supply and office supply stockrooms under the procurement and supply director recommended in I-A above.

#### AGENCY RESPONSE

The recommendation will be implemented under the direction of a procurement and supply director as recommended and responded to in section I-A of the Audit Findings.

#### V. COMPLIANCE - GENERAL

##### A. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period July 30, 1981 - March 31, 1983, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of

these transactions to be proper and accurately reported, but we did encounter the following problems:

# I. SOLE SOURCE PROCUREMENTS

## A. EXCEPTIONS

P.O.#	AMOUNT	DESCRIPTION
95044	\$ 9,016.80	These procurements for laboratory equipment, testing equipment and trainers had unacceptable justifications as sole source procurements. All documents justified why the respective department needed the equipment but they did not justify the vendor as a sole source supplier.
95045	16,661.00	
95046	10,296.00	
96547	3,000.00	This procurement of Information Technology equipment had no authorized justification on file.
97003	1,420.80	This lab equipment was purchased with the approval of a sole source justification by the Vice President for Research dated 11/16/82. As of 9/7/82, President Nance had designated the Vice President for Business and Finance as the only authorized signature for sole sources.
94856	1,250.00	This procurement for a sole source maintenance agreement had no authorized justification written for the transaction. Only "sole source" was written on the requisition by the Business Manager and under the Procurement Code he does not have this authority.
98325	14,800.00	This procurement for repairs to two compressors was only documented on the requisition "sole source" and no authorized justification is on file.
97687	4,111.00	These procurements for service contracts had no authorized justification on file, only the words "high tech sole source" were written on the requisition and signed by the Business Manager.
97694	2,622.26	

Regulation 19-445.2105, Subsection B, states in part:

Sole source procurement is not permissible unless there is only a single supplier.... The determination as to whether a procurement shall be made as a sole source shall be made by either the Chief Procurement Officer, the head of a governmental body, or designee of



either office above the level of the procurement officer...In cases of reasonable doubt, competition should be solicited. Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.

This has been interpreted by the Materials Management Officer as follows:

The terminology 'only one source' is intended to mean one manufacturer or unique service provider distributing through one distributor channel. If a firm specification for a product or service is requested due to a unique circumstance or need only satisfied by the procurement of that specific product/service and there is more than one source of distribution, the procurement is not sole source. Bids should be forwarded to all known distributors to achieve the lowest possible price for the particular service or product.

#### B. UNNECESSARILY REPORTED ITEMS

<u>P.O.#</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
92025	\$ 4,420.82	This procurement for repairs to a dishwasher as an emergency was approved by the Business Manager on 2/24/82. However, on 5/13/82 he signed a sole source justification. The transaction was then reported to the Materials Management Office as an emergency.
95718	23,183.00	This procurement for Nautilus weights was bought from exempted athletic funds and should not have been reported.
97187	514.00	This procurement for a nerve stimulator was made with exempted athletic funds and should not have been reported.
98178	875.00	Competition was obtained for the purchase of three plaques; therefore, this transaction should not have been reported.
98421	1,194.24	This procurement for a football passing machine was bought with exempted athletic funds and should not have been reported.



Additionally, Section 11-35-710 states in part:

The following exemptions are granted in this chapter:

...(f) Expenditure of funds at state institutions of higher learning derived wholly from athletic...contests....

#### AGENCY RESPONSE

In each instance it was determined that "sole source" was applicable. In the future an effort will be made to ensure that each designation contains the proper authorizing signature. Additionally, those preparing justifications will be cautioned to prepare "more acceptable" justification. Finally all "sole source" procurements will contain justifications.

#### II. EMERGENCY PROCUREMENTS

<u>P.O.#</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
95501	\$ 3,575.22	This purchase for emergency repairs to an air conditioner was approved by the Business Manager who does not have authority to approve such justifications.
96232	\$ 2,231.48	These procurements for athletic equipment, supplies and apparel were bought with exempted athletic funds and should not have been reported.

96036	1,895.00
95988	4,397.25
96425	6,077.25
97200	2,225.60
97690	1,831.20
09691	6,460.66
97692	10,834.50

95793            733.33    This procurement for a fire control for a boiler was approved by the Business Manager without written authority to do so.

#### AGENCY RESPONSE

Authority for approval of emergency procurement was verbally given to the Business Manager and has since been reduced to writing. We will attempt to refrain from reporting purchases made with exempted funds.

#### III. TRADE IN SALES

The College had one reported trade-in of a scientific instrument furnace totalling \$5,321 in trade-in value. This transaction did not have Materials Management Office approval as required by the Code.

Regulation 19-445.2150, Subsection E, states in part:

When the trade-in value exceeds five hundred dollars (\$500.00), the governmental body shall refer the matter to the Materials Management Officer....

#### AGENCY RESPONSE

The requirement of the Code with reference to trade-in sales will be monitored more closely.

Due to the lack of sufficient understanding of sole source and emergency procurements and trade-in sales and the documentation required, most justifications were weak and some totally absent. Furthermore, due to reporting items where competition was obtained and/or exempted items, the sole source and emergency quarterly reports have been overstated by the following amounts:

Sole Source:       \$25,766.24

Emergency:         35,952.69

We recommend that S.C. State list clearly in their purchasing procedures manual who has the authority to approve sole source and emergency procurements.

Further, we recommend that the procurement section review these exceptions and make a more concerted effort to test the market when there is any question concerning the availability of competition. If none can be found, then the sole source justification should clearly state why the supplier is a sole source and not why the department needs the items or equipment.

#### AGENCY RESPONSE

The Business Manager was listed as having the authority to approve both sole source and emergency. However, because the State's Procurement Office had the Business Manager listed as the

chief procurement officer, the Business Manager could not, according to the code, have to be authorized to approve sole source purchases. This has been changed in the revised manual.

Each sole source and emergency request document will be reviewed more carefully to insure that the information supports the request.

#### B. Minority Business Utilization Plan

S.C. State has not finalized their Minority Business Enterprise Utilization Plan (MBE Plan). A plan was prepared and submitted to the Small and Minority Business Assistance Office (SMBAO) but they have not approved it.

Section 11-35-5240(2) of the Procurement Code states in part that, "MBE utilization plans shall be submitted to the SMBAO for approval not later than July thirtieth, annually." (Emphasis Added)

We recommend that S.C. State immediately contact the SMBAO to work out any differences concerning the plan in order to effect compliance with the Procurement Code.

#### AGENCY RESPONSE

A follow-up is being made.



## VI. INTERNAL AUDIT

We found that there has been insufficient involvement in review and audit of the procurement process by the college's Internal Audit Department.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc. to determine that procurement procedures are sound and are being adhered to by user departments. As a state-supported institution, the program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operations programs. We feel, however, that in this case, the cause is the fact that the college's internal auditor resigned more than a year ago and has not been replaced. At this time the office is staffed by one auditor II only. It is impossible for this one person to perform all the internal audit functions at S.C. State.

This leaves a gap in the administrative control over the procurement function because this area goes without review except by external audit organizations. Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.

The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope of Internal Audit should encompass the

examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." We feel this expands the role of Internal Auditors into the areas of compliance, management and operational reviews of all areas and functions of an organization.

We recommend the college take the appropriate steps to fill the vacancy left by the Internal Auditor's departure. This would not only add another person but they would provide needed direction in this area.

We further recommend that audit programs be developed to test the procurement process for adequacy of internal controls, compliance with the Consolidated Procurement Code, adherence to college policy and procedures and overall effectiveness of the purchasing and supply areas. This program should include but not be limited to periodic review of procurements at all dollar levels and within all procurement areas including central stockroom operations.

#### AGENCY RESPONSE

Efforts that have been made to fill the vacancy have not yet met with success. We will continue to pursue this endeavor. Until the vacancy is fill, by necessity, the lone internal auditor must perform his historical role of auditing financial areas.

## VII. FISCAL ACCOUNTABILITY ACT REPORTING

As a result of a lack of clarification as to reporting procedures statewide, the college has failed to fully comply with the requirements of the Fiscal Accountability Act in the following areas:

1. Failed to report to the Comptroller General a statement of all existing contracts for permanent improvements and the status of the work pursuant to such contracts.
2. Failed to report all procurements to the Division of General Services such as:
  - (a) Renewal of rollover contracts such as information technology rental and maintenance agreements.
  - (b) Bookstore procurements.
  - (c) Registration fees and dues.
  - (d) Construction contracts where no purchase order is prepared.
3. Neglected to reconcile the data collected for Fiscal Accountability Act reporting to General Services with the general disbursement records.



Act 561 of 1976, Section 4, states in part:

The quarterly reports required by this Act shall include the following information current to the end of the last preceding quarter:

...(2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

Further, 561 as amended May 30, 1977, states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's Office, be included in the reporting requirements of this Act....

Our examination revealed a misconception that such contracts for permanent and capital improvements and progress made on such projects was not required. This also was the case on the items not reported to the Division of General Services.

One result of the aforementioned conditions is that a large percentage of expenditures has not been reported to the Division of General Services. Per the fiscal year 1982/83 Appropriations Act, S.C. State was budgeted \$5,846,698 for contractual services, supplies, equipment and items for resale. As of June 2, 1983, only \$1,693,361.80 of this had been reported to the Division of General Services. Surely more than this had been committed in 11 of the 12 months of the fiscal year.



The General Assembly, without major additional effort, could not readily obtain the procurement activity of S.C. State as contemplated by the Fiscal Accountability Act in the areas of:

1. Permanent and capital improvements; and
2. Total commodities purchased.

Additionally, by not establishing Fiscal Accountability Act input as a reliable data base, S.C. State has deprived itself of the internal fringe benefits that could have resulted therefrom, such as:

1. Planning and scheduling acquisitions;
2. Consolidation of commodities for better prices;
3. Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;
4. Evaluation of purchasing goals.

The Division of General Services is currently working with the Comptroller General's Office on proposals to make major revisions in the reporting requirements of the Fiscal Accountability Act in the near future. These revisions will hopefully make the data reported by agencies more responsive and cost effective.

Because of the possibility of these major revisions, we cannot recommend that S.C. State expend significant amounts of time and money in effecting total compliance with this law although compliance with all state laws is not optional. This lack of compliance has been discovered in differing degrees, however, at all agencies which we have audited.

## AGENCY RESPONSE

We agree with the assessment of the state-wide lack of clarification regarding the reporting procedures required by the Fiscal Accountability Act. We will, however, make every effort to comply with the state law in this regard.

### VIII. REVIEW OF THE PROCUREMENT PROCEDURES MANUAL

The S.C. State Purchasing Services Division has submitted a draft copy of their Internal Procurement Operating Procedures Manual for review to determine if their written procedures are consistent with the Consolidated Procurement Code and its regulations.

Our review of the current manual revealed that the following areas need to be added, changed or expanded:

1. Title - Introduction - This page in the manual should categorize the authority structure of the purchasing function more explicitly, such as identifying the decentralization concept being followed and the statute or rule applicable to its formulation.
2. After the Statement of Purchase, a separate determination of compliance with the Consolidated Procurement Code needs to be inserted.
3. Following these statements, a list of ethical standards to be adhered to by procurement personnel needs to be referenced. Subsequently, an organizational chart should be incorporated in a separate section.

4. Under a classification of "General Policy Statements", the following procurement policies should be categorized. We recognize that some of these have been addressed already in other areas of the manual, but we feel they should be consolidated here:

- (a) Copies of all signature authorization forms need to be maintained in Purchasing Services. The purpose and use of them needs to be addressed and an exhibit of this form included in the addendum.
- (b) Professional Development - A statement of support by the college to uphold the professionalism of purchasing personnel through continued education in the procurement field.
- (c) Sample Submission - This policy needs to be inserted in the General Policy Section.
- (d) A Warranty and Quality Assurance policy statement would logically follow the above.
- (e) Change Order Procedures - The procedures used by Purchasing Services to process changes to purchase orders after their issuance needs to be defined, i.e., who can authorize price increases, quantity changes, etc.
- (f) Vendor Complaints and Grievances/Protests - The procedures for processing complaints and grievances should be outlined, particularly the policy for vendor grievances as mandated by the Code in Section 11-35-4210.
- (g) Determinations and Findings - List the approvals necessary prior to contracting for audit and legal services.



5. In the policy section, or incorporated in a new section of the manual, list the latest exemptions granted by the Budget and Control Board including the ones stipulated by the Code.
6. Supply/Bookstore/Warehouse Requisitioning Procedures need to be standardized and consolidated into one section of the manual with appropriate exhibits, i.e., term contract items, commodities available. Procedures should be developed whereby department heads may request storage for high use items pertinent to their field, i.e., chemical powders, special paper products.
7. Delivery and Receiving Procedures need to be expanded to show routine departmental responsibilities upon receipt of merchandise. Additional central warehouse procedures need to be detailed, or if located in another area, their location referenced.
8. Property Control Procedures need to be added as an addendum to the manual, or a statement referencing their location and accessibility should be noted.
9. Surplus Property Procedures - Declaration thereof, transfer, and approvals necessary for disposal of surplus in accordance with the Consolidated Procurement Code.
10. Purchase Requisition Flow Chart - The requisition flow through each of the four procurement areas should be outlined:
  - (a) Goods and Services
  - (b) Information Technology
  - (c) Consultant Services

(d) Construction

Clarify the exact methods for purchase order approvals. Is a rubber stamp used? Are actual signatures used? Address the decentralization concept adhered to by S.C. State. How does the business office process and monitor departmentally solicited quotations? Whose responsibility is the task of price verification, code compliance and other procurement procedures?

11. Explain clearly Direct Expense Requisitions, their use, dollar limits, necessary approvals prior to their commitment. What does "miscellaneous contractual services" mean? The manual statement contains contradictory policies regarding contractual services. (See sentences 1 and 3)
12. Clarify the procedures for leasing of real property and equipment, and the use of the Standard Equipment Agreement form.
13. The manual needs to address the use of multi-term contracts as defined in the Consolidated Procurement Code, particularly with regard to maintenance and rental agreements which tend to be annually "rolled over", and whose original contracts and documentation of competition should be centrally filed for audit purposes.
14. Expand the Sole Source Procurement section to include some of the criteria stated in the regulations upon which justifications must be based. Clearly note that the final approval authority for these sole source determinations lies with the Vice President of Business and Finance. Any designee of the above must be in writ-

ing and must be functioning at a management level above the level of procurement officer.

15. Change all references from Central Purchasing to State Procurements. This is their new name.
16. Revise the section on Construction Procedures to conform with the new construction manual for "The Planning and Execution of State Permanent Improvements".
17. Define the methods used by the college for small purchases and the limits of their usage, i.e., telephone quotations, written quotations, blanket agreements, confirmation purchase orders.

#### AGENCY RESPONSE

The recommendations made in response to our request for review of our purchasing manual have been noted and will be considered in the revision.



## IX. PRINT SHOP UTILIZATION

As part of our examination, the State Printing Officer analyzed print shop equipment and personnel utilization. The following is his report:

### DUPLICATING EQUIPMENT UTILIZATION ANALYSIS

Standards for evaluating efficiency and effectiveness of duplicating equipment in the South Carolina State Print Shop were established in part by the Legislative Audit Council and the State Printing Manager. (See Program and Operational Review of Printing, Duplicating and Photocopying Activities of South Carolina State Agencies, November 14, 1978) The Print Shop is currently operating three (3) separate pieces of offset printing equipment. The criteria for evaluating equipment utilization has generally been established as 50% of the rated machine speed of the equipment being analyzed.

A minimum standard for use levels has been developed by allowing three and one-half (3 1/2) hours out of each seven and one-half (7 1/2) hour working day to be used for job set-up time, clean-up time, finishing, routine maintenance, breaks and miscellaneous down time. The number of hours equipment is available for operation annually is the same number of hours an operator would be on the job.

#### HOURS

37 1/2 hours straight time per week x 52 weeks = 1,950

Less: 15 days annual leave..... = 112.5

15 days sick leave.....	=	112.5
11 holidays.....	=	<u>82.5</u>
		307.5

1950 hours available minus 307.5 hours = 1,624.5

1642.5 divided by 7.5 hours = 219 days

Utilizing the production standards mentioned, 100% utilization would equal four hours per day. The number of working days per month based on 219 days divided by 12 equals 18.25 days.

In this analysis each piece of duplicating equipment has been evaluated individually and a percentage of utilization calculated. A collective utilization has also been calculated based on three pieces of equipment. Man hours have been analyzed using basically the same criteria established for evaluating equipment utilization. The percentage of man hours utilized out of the working hours available indicates the overall efficiency of the Print Shop. At this point, data is not available to compare the efficiency of this Print Shop with others in State Government. However, when all data is compiled from each agency Print Shop, the results will be published.

#### EQUIPMENT INVENTORY

1. A.B. Dick 350
2. A.B. Dick 360
3. A.B. Dick 1600 with on-line Sorter
4. IBM MTST Composer
5. Interlake Stitcher
6. Light Table - NuArc
7. Pitney Bowes Collator

8. Ordina Folder
9. Kroy Type Headliner
10. A.B. Dick III Platemaker
11. A.B. Dick 107 Exposure Unit
12. Challenge Paper Cutter
13. Bindfast II Binding Machine
14. Martin-Yale Folder
15. A.B. Dick 58 Table Top Folder
16. A.B. Dick Mimeograph
17. Stencil Maker

The production records provided by State College do not indicate the number of impressions produced on each piece of duplicating equipment. However, an overall number of impressions has been provided for the three pieces of equipment utilized during the period of July 1, 1981 through June 30, 1982. This data will be analyzed for the purpose of this equipment and man hour utilization study. I have requested that the Print Shop Manager keep records in the future relative to the number of impressions produced on each piece of duplicating equipment individually to more adequately assess productivity.

#### EQUIPMENT UTILIZATION ANALYSIS

- A. A.B. Dick 1600
- B. A.B. Dick 350
- C. A.B. Dick 360

Total number of impressions produced from July 1, 1981 through June 30, 1982: 5,045,606

Total Annual Volume - 5,045,606 impressions

Average Monthly Volume - 420,467 impressions



Average Monthly Volume on each duplicator - 140,156 impressions

5,045,606 Annual Impressions Divided by 219 working days = 23,039

23,039 Daily Impressions Divided by 4333\* impressions per hour = 5.32 hours

5.32 hours is 45% of 12 hours (Representing 100% Utilization for three pieces of equipment daily)

Equipment Utilization - 45%

\*Average production standard for the three pieces of duplicating equipment

#### MAN HOUR UTILIZATION ANALYSIS

Number of Employees - Three (3) full time.

1. Printing Shop Manager
2. Printing Equipment Operator II
3. Printing Equipment Operator II
4. Printing Equipment Operator I
5. Printing Equipment Operator I

There are two employees (3 and 4 above) directly responsible for duplicating equipment productivity. These employees operate three pieces of duplicating equipment.

Volume Produced Overall - 5,045,606 impressions.

5,045,606 Divided by 219 Working Days - 23,039

impressions per day.

23,039 impressions per day Divided by 2 employees =

11,520 impressions per employee.

11,520 impressions per employee divided by 4,333

impressions = 2.66 hours.

2.66 hours is 67% of 4 hours (Representing 100% Utilization).

Man Hour Utilization - 67%

100% Equipment Utilization would generate - 11,388,000  
impressions.

Actual Equipment Utilization - 5,045,606 impressions

100% Man Hour Utilization - 1,752 hours

Actual Man Hour Utilization - 1,174 hours.

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We would recommend that S.C. State take this report into consideration and strive to upgrade the operational efficiency of the Print Shop.

#### AGENCY RESPONSE

The recommendation will be taken into consideration.

#### X. ENERGY AUDIT

As part of our audit, we requested the Division of General Services' Engineering and Energy Management Coordinator to analyze S.C. State's energy management program for the purpose of identifying potential for improving energy efficiency and recommending alternatives and/or corrective action. This analysis was performed not to criticize S.C. State but for the purpose of providing assistance in this area of cost avoidance.

During the last ten years energy use has become a major expenditure for all state agencies and institutions. Energy

costs have taken up funds that once were available to meet other program objectives. The problem has been further complicated by the sagging state economy that has forced state government to reduce agency budgets several times over the past two years,

The results of this study are as follows:

#### FINDINGS & RECOMMENDATIONS

##### FINDING:

1. The management of the utilities is ineffective, with natural gas being the worse offender.

a) There is very little change in the use of gas.

1. Summer-Winter

2. School in session or not

b) The potential savings in gas exceed \$100,000 and probably approach \$350,000 annually.

##### RECOMMENDATION:

a) Find other ways of providing heat during period of low steam requirement.

b) Tighten up the steam distribution and condensate return systems.



#### DISCUSSION:

Normally one would expect the load on the heating plant to vary more than it presently does. This would indicate that the most demanding load on the boiler is losses.

Also, according to physical plant personnel the only use of steam during non-school periods is for domestic hot water in eight buildings. The cost of providing this service was approximately \$49,000 in June.

There is evidence of insulation break down at various points in the steam distribution system. (End of Earle Hall, President's residence, & steam pit area, grass is dead and ground is hot to the touch).

#### FINDING:

2. The electric utility is presently gathering the data necessary (KW & KVA demand) to increase the electric bill by \$1000 to \$1500 a month, even if the usage pattern does not change.

#### RECOMMENDATION:

Investigate the cost of installing capacitors on the electrical services that will be penalized if the utility begins charging for power factors that are less than 85%.

#### DISCUSSION:

The utility has begun gathering the data necessary to add a penalty charge to the two large sub-station accounts. My study indicates that the penalty could vary from nothing to \$1300 per month on each account because of low power factor.

#### FINDING:

3. No school representative accompanies the utility representative when the meters are read to verify the readings.

RECOMMENDATION:

Have a school representative accompany the meter reader.

DISCUSSION:

An erroneous high reading on a demand meter would cost the school hundreds of dollars during that month and could carry forward on each month's bill for the next 11 months. A school representative that verifies the meter reading would substantially reduce this possibility.

FINDING:

4. No effort is made to charge utility costs to any cost center (Dorms, Instruction, Administration, etc.) except for Auxiliary enterprises.

RECOMMENDATION:

Some buildings have electric sub-metering, however, these meter readings are not recorded and a management opportunity is neglected. There is no indication that any cost associated with the operation of the various facilities are captured individually.

FINDING:

5. There is no evidence to indicate that any demand limiting techniques are employed.

RECOMMENDATION:

Attempt to control the maximum demand.

DISCUSSION:

If the maximum demand can be controlled to a lower level the savings would be substantial. The penalty for not controlling the demand varies from month to month. The amount varies from nothing, to approximately \$3000 per month on each of two accounts and \$700 on another account.

FINDING:

6. Most of the water accounts pay a sewer charge even though some water does not go through the sewer system.

RECOMMENDATION:

If no provision is being made for this, begin negotiations with the city to reduce the amount of the sewer charge.

DISCUSSION:

The sewer charge is based on the water consumption. Some accounts serve uses that do not terminate in the sewer. Some of these uses are: air conditioning condensers, boiler make up water and irrigation.

FINDING:

7. The boiler that was operating on 8/19/83 was in need of adjustment. The oxygen level was too high and the efficiency indicated a less than optimum level.

RECOMMENDATION:

Adjust the boiler for maximum efficiency and attempt to maintain a high level of efficiency.

FINDING:

8. The steam distribution system has very few cut-off valves.

RECOMMENDATION:

Install cut-off valves at strategic points in the distribution system.



## DISCUSSION:

The present distribution system has approximately 13,000 linear feet of piping that is exterior to the buildings. All distribution piping is 8 inches in diameter or less. The cost of installing cut-off valves could be recovered very quickly if the valves were used to isolate various sections of the campus when there was no need for the steam in that area. Also this would help when it is necessary to isolate a particular section for maintenance.

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During the time of our audit, S.C. State was notified by the City of Orangeburg that electricity charges for the period August, 1981 - March, 1983, had been vastly underbilled due to a meter malfunction at the campus. City Officials estimate the total underbilling to be \$280,000. Further, they have invoiced the college for \$190,000, which is the opinion of the Attorney General's Office and the State Engineer's Office must be paid.

We recommend that S.C. State implement an effective energy management program which includes a method of monitoring utility usage for reasonableness. Such a program should be comprehensive enough to detect obvious under or overbilling in the future.

The Division of General Services offers the services of the Engineering and Energy Management Coordinator to assist S.C. State in the performance of this task.

The importance of these points cannot be understated. We suggest that S.C. State pursue energy conversation on all levels

and suggest that the above recommendations be considered as soon as practical.

AGENCY RESPONSE

To be addressed separately.

## CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place S.C. State in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Priority should be given to the following:

1. Establishing a position for a procurement director or a procurement and supply director and employing the appropriate individual.
2. Consolidating procurement authority under this person and establishing more procurement control through centralization.
3. Upgrading central supply efficiency through additional use and better accountability.

## AGENCY RESPONSE


We accept the priorities as established in the conclusion. Each of the priorities have been addressed throughout our response.

We stand ready to provide training and/or other assistance to S.C. State in the development of acceptable solutions to the



problems enumerated in this report, as well as any others they might identify in the areas of procurement and inventory management.

Subsequent to corrective action being taken within the ninety (90) days specified in the Procurement Code and because S.C. State did not request additional certification limits, we recommend that S.C. State be authorized until our next regularly scheduled biennial audit to continue procuring all goods and services, construction, information technology and consulting services up to the small dollar purchase level as outlined in the Procurement Code and as provided for in its internal procurement procedures manual.

  
\_\_\_\_\_  
R. Voight Shealy  
Director, Audit and Certification

STATE OF SOUTH CAROLINA  
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EXECUTIVE DIRECTOR

RICHARD W. KELLY  
ASSISTANT DIVISION DIRECTOR

January 8, 1985

Mr. Richard W. Kelly  
Director of Agency Services  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Rick:

We have returned to South Carolina State College to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 - May 31, 1983. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the college has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system.

We, therefore, recommend that the audit report be submitted to the Budget and Control Board for their information. Certification was not requested by the college.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. Voight Shealy".

R. Voight Shealy  
Director of Audit and Certification

RVS:kl



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